NATIONAL BANK OF RWANDA
BANKI NKURU Y'U RWANDA

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

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TABLE OF CONTENTS

EXECUTIVE SUMMARY

The world economic growth remained sluggish in 2015, with real GDP growing by 3.1% following lower than expected economic performance in most advanced economies, particularly the US, Japan and the Euro Area. Global inflation remained subdued on the account of falling commodity prices, especially for energy. In advanced economies, inflation remained below central banks' targets as a result of low economic activities which remained below potential.

The Rwandan economy performed well in the first three quarters of 2015 as real GDP grew by 6.1% in 2015Q3, 7.1% in 2015Q2 and 7.6% in 2015Q1 after 8.0% in 2014Q3, 6.1% in 2014Q2 and 7.5% in 2014Q1. On average, the economy grew by 6.9% in the first three quarters of 2015, slightly lower than 7.2% recorded in the corresponding period of the previous year. Growth in the first 3 quarters of 2015 was driven by the good performance of the service sector (+7.3%) followed by the industry sector (+7.0%) and the agriculture sector (+5.0%).

Leading indicators of economic activities indicate that the economy continued to perform well in 2015Q4, evolving towards attaining the projected growth of 7% in 2015. Total turnovers of industry and services sectors increased by 16.3% in 2015Q4 from 12.0% recorded in 2014Q4 while the composite index of economic activities (CIEA) increased by 15.2% in 2015Q4 from 13.6% in 2014Q4.

The good economic performance in 2015 was supported by the significant increase in economic financing by the banking sector as a result of the accommodative monetary policy implemented by BNR. New authorized loans by the banking sector to the private sector rose by 13.7% in 2015, amounting to FRW 742.2 billion from FRW 653.0 billion in the period under review.

Furthermore, high economic growth was achieved with low and stable inflation on account of sustained and well-coordinated monetary and fiscal policies coupled with limited inflationary pressures from trading partners and easing international commodity prices, especially of oil. Inflation averaged to 2.5% in 2015 from 1.8% in 2014.

On the external sector front, it is worth mentioning that, despite their increase in volume, both exports and imports registered a decline in value as a result of the fall in international commodity prices. However, the decline in export value (-6.8%) in 2015 was more than offset by the 2.8% decline in imports value and this leading to the drop in the trade deficit by 1.4% from 1,787.2 million USD in 2014 to 1,761.3 million USD in 2015.

In addition, the strengthening of US dollar against other currencies worldwide, coupled with the decline in international commodity prices that affected negatively the export revenues, has put pressures on Rwandan franc. In 2015, the Rwandan franc depreciated on annual basis by 7.6% from 3.6% in 2014. BNR increased its sales to banks by 3.7% and managed to keep foreign reserves covering 4.1 months of imports.

The Rwandan financial system remains sound and stable and all its sub-sectors have been growing. Banking system lending accelerated in 2015, mainly benefiting the private sector and contributing to economic growth of the country as earlier mentioned.

The banking sector continues to dominate the financial sector with 67% of the total financial sector assets, followed by pension (17.1%), Insurance (9.3%) and Microfinance Institutions (6.6%).

The banking sector assets expanded significantly in 2015. Total assets of the industry registered an annual growth rate of 18.3% in December 2015, from FRW 1.80 trillion in December 2014 to 2.13 trillion in December 2015, mainly due to high growth of loans to the private sector which accounted for 57.6% of total assets of all banks, followed by Government securities with a share of 11.2% of total banks' assets.

The Microfinance sector's assets grew by 31.1%, from FRW 159.3 billion in December 2014 to FRW 208.9 billion in December 2015. This increase is attributable to the sharp increase in loans by 28.6%. The Capital Adequacy Ratio (CAR) stood at 31.1%, well above the minimum regulatory requirement of 15% and liquidity ratio stood at 89.6%.

Banking and non-banking financial institutions' capital and liquidity levels remain adequate, above the prudential limits, and enough to absorb any shock.

Much progress has been achieved in card based payment during 2015. The number of ATM increased by 30.1% between 2012 and 2015, the number of POS terminal for merchants by 203.5%, the number of debit *cards by 67.2% and the number of credit cards by 733.7% between 2012 and 2015. The volume of transactions as well as the value have also significantly increased showing good progress in the usage of those products.*

In terms of formal financial inclusion, also much progress has been achieved between 2012 and 2015 more likely exceeding the growth of 21% achieved between 2008 and 2012.

The National Bank of Rwanda also made good progress in reviewing legal and supervisory frameworks, as well as strengthening contingency planning.

A new pension law, which provides for establishment of private pensions, was gazetted in May 2015. A new Deposit Insurance Law, which extends protection for smaller depositors in banks and MFIs, was published in the Official Gazette in August 2015.

Looking forward, BNR will continue implementing a prudent monetary policy stance during 2016, allowing monetary aggregates to grow at a moderate pace compared to 2015 in a bid to anchor inflation expectations while supporting economic growth and containing pressures on the FRW.

In order to strengthen the stability and efficiency of the financial sector, BNR will continue to conduct prudent surveillance of the entire financial sector through regular onsite inspections and offsite analysis.

I. OVERVIEW OF ECONOMIC ENVIRONMENT

1.1 Global Economy

1.1.1 Economic Growth and Outlook

Six years after the recovery from the global financial crisis, the world economic growth remained sluggish in 2015 and near term prospects uneven and divers across regions and countries. In advanced economies, growth perspectives seem to be stronger supported by waning persistent effects from previous crises, accommodative monetary policy, declining energy prices and a return to fiscal neutrality. In emerging and developing economies, slowing Chinese growth, declining commodity prices and political turmoil continue to undermine growth perspectives. Overall, in January 2016, IMF estimated real GDP growth at 3.1% in 2015 as it was projected in October 2015 against 3.3% and 3.5% respectively projected in July and April 2015.

Table 1: Economic growth developments (%)

	2009	2010	2011	2012	2013	2014	2015	2016 proj.
World (YOY)	**0.0**	**5.4**	**4.2**	**3.4**	**3.3**	**3.4**	**3.1**	**3.4**
Advanced economies	**-3.4**	**3.1**	**1.7**	**1.2**	**1.1**	**1.8**	**1.9**	**2.1**
USA	-2.8	2.5	1.6	2.2	1.5	2.4	2.5	2.6
Euro area	-4.6	2.0	1.6	-0.8	-0.3	0.9	1.5	1.7
Japan	-5.5	4.7	-0.5	1.7	1.6	0.0	0.6	1.0
United Kingdom	-4.3	1.9	1.6	0.7	1.7	2.9	2.2	2.2
Emerging & Devel. Economies	**3.1**	**7.5**	**6.3**	**5.2**	**5.0**	**4.6**	**4.0**	**4.3**
China	9.2	10.6	9.5	7.7	7.7	7.3	6.9	6.3
India	8.5	10.3	6.6	5.1	6.9	7.3	7.3	7.5
Sub-Saharan Africa	**4.1**	**6.6**	**5.0**	**4.3**	**5.2**	**5.0**	**3.5**	**4.0**

Source: IMF WEO, October 2015

The global economy is projected to gain some momentum in 2016 growing by 3.4%, led by strengthening recovery in advanced economies and improving economic activity in emerging and developing economies.

Downside risks to world economic prospects include rising US interest rates, slowing growth in global trade and the decline in commodity prices exacerbated by a continuous slowdown in the Chinese economy, low productivity and aging populations. These factors are likely to increase global uncertainty and to constitute higher risks of economic vulnerability.

In advanced countries, real GDP growth stood at 1.9% in 2015 compared to 2.1% and 2.4% forecasted in July and April 2015 while it is projected to grow by 2.1% end 2016.

In USA, despite a strong second quarter of 2015, the economy grew by 2.5% in 2015 against 2.6% and 3.1% initially projected and 2.4% registered in 2014. This revision was mainly due to the underperformance of the first quarter of 2015 that resulted from harsh weather, a cut in oil related investments and a strong US dollar which is continuing to affect US export competitiveness. By end 2016, real GDP growth is projected at 2.6% supported by still easy financial conditions, reduced fiscal drag, solid domestic demand and by improving housing and labor markets. Nonetheless, factors like a weak global demand, lower oil prices, frail investment, slow productivity growth and a stronger US dollar are likely to keep growth perspectives moderate over the medium term.

In the Eurozone, the outlook is showing a gradual improvement, thanks to the easing monetary policy, competitive exchange rate that has been supportive for domestic exports, improving confidence among businesses and consumers as well as on-going decline in energy prices. Real GDP growth improved to 1.5% in 2015 and is foreseen to increase to 1.7% in 2016 from 0.9% recorded in 2014. Higher than expected growth in Italy, Spain and Ireland outpaced lower than projected growth rate in Germany.

In emerging and developing economies, near term economic prospects remained weak though the region accounts for the biggest share of the world output. Real GDP growth decelerated from 4.6% recorded in 2014 to 4.0% in 2015 as result of slowdown in China and in commodity exporting countries as well as the political turmoil in some developing economies. The economic growth is projected to slightly improve to 4.3% in 2016 reflecting higher domestic demand in India which offset the slowdown in China, a normalization of conditions in previously distressed economies like Russia, Brazil, Latin America and Middle East and spillover from a pickup in advanced economies. This outlook is however likely to be affected by persistent declines in commodity prices, reduced capital flows to emerging economies and pressures on their currencies, which can result into financial market volatility.

Chinese economic growth slowed down from 7.3% recorded in 2014 to 6.9% in 2015, undermined by a slowdown in industrial production, weak property investment and negative contribution from net exports. It will decelerate furthermore to 6.3% in 2016, the lowest performance in the last 25 years. The Chinese government and the Central Bank took stimulus measures including the cut in interest rates, the injection of liquidity in the banking system, the reduction in reserve required ratio and recently, the devaluation of the Renmibi to support the demand and avoid a sharp economic slowdown. Following the Chinese effort to reform its monetary and financial systems and, as an indication of the global importance of the Renmibi currency, IMF decided to include the Yuan in the Special Drawing Rights (SDR) basket and will start to be freely used since October 1, 2016.

In Sub-Saharan Africa, the economy slowed furthermore to 3.5% in 2015 compared to 4.4% and 4.5% initially projected and against 5.0% in 2014 due to the falling commodity prices, waning terms of trade as well as conflicts and epidemic diseases. Real GDP growth is expected to slightly increase to 4.0% in 2016 helped by improving external demand after a slight recovery in global economy, moderate increase in oil prices supportive for oil exporting countries and an improving outlook in countries previously affected by Ebola disease.

In EAC, economies performed well and are expected to keep the momentum in 2015. The Kenyan economy is projected to grow by 6.5% compared to 5.3% recorded in 2014. The Ugandan Economy is expected to grow by 5.2% from 4.8% in 2014 and the Tanzanian economy is foreseen to grow by 6.9% in 2015 slightly lower than 7.0% recorded in 2014. However, the Burundian economy is expected to contract by 7.2% against a growth of 4.7% in 2014 as result of the on-going political tensions.

Table 2: Economic growth developments in EAC countries (in %)

	2009	2010	2011	2012	2013	2014	2015	2016
Sub-Saharan Africa	**4.1**	**6.6**	**5.0**	**4.3**	**5.2**	**5.0**	**3.5**	**4.0**
Burundi	3.8	5.1	4.2	4.0	4.5	4.7	-7.2	5.2
Kenya	3.3	8.4	6.1	4.6	5.7	5.3	6.5	6.8
Rwanda	6.2	6.3	7.5	8.8	4.7	7.0	6.5	7.0
Tanzania	5.4	6.4	7.9	5.1	7.3	7.0	6.9	7.0
Uganda	8.1	7.7	6.8	2.6	3.9	4.8	5.2	5.5

Source: Central Bank Reports & IMF, WECO, October 2015 & January 2016

1.1.2 Inflation and commodity prices

Weaker economic growth and falling commodity prices, especially energy prices, are continuing to exert deflationary pressures in advanced economies, and inflation remained below central bank targets. By end 2015, inflation in developed countries decreased to 0.3% from 1.4% recorded in both 2014 and 2013. Inflation is foreseen to slightly rise to 1.1% by end 2016 and onwards, but will remain below central bank's targets pointing to continuous accommodative monetary policy to inflate the economy.

Table 3: Annual inflation developments (in %)

	2009	2010	2011	2012	2013	2014	2015	2016
Advanced economies	**0.2**	**1.5**	**2.7**	**2.0**	**1.4**	**1.4**	**0.3**	**1.1**
USA	-0.3	1.6	3.1	2.1	1.5	1.6	0.1	1.1
Euro Zone	0.3	1.6	2.7	2.5	1.3	0.4	0.0	1.0
Japan	-1.3	-0.7	-0.3	0.0	0.4	2.7	0.8	0.4
Emerging & Developed	**5.2**	**5.8**	**7.3**	**6.0**	**5.8**	**5.1**	**5.5**	**5.6**
Sub-Saharan Africa	**8.2**	**9.5**	**9.5**	**9.4**	**6.6**	**6.4**	**6.9**	**7.3**
China	-0.7	3.3	5.4	2.6	2.6	2.0	1.5	1.8

Source: IMF, WECO, October 2015 & WEO January 2016

In Sub-Saharan Africa, inflation is expected at 6.9% by end 2015 from 6.4% in 2014. In EAC, inflation remained low in 2015 with some pressures towards the end of the year due to food inflation and continuous weakening regional currencies against the USD.

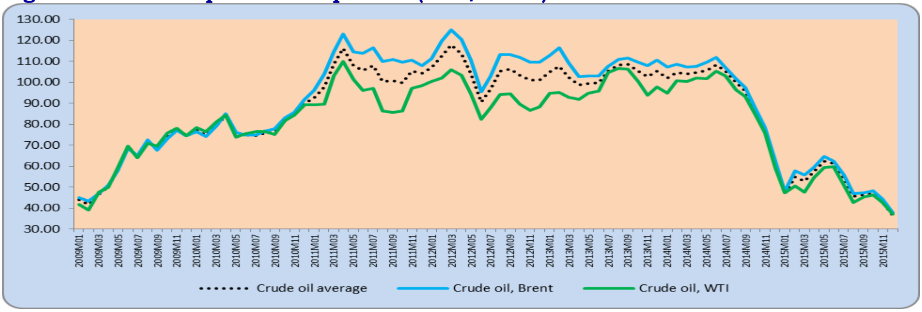
Table 4: Annual headline inflation in EAC countries (in %)

	2012	2013	2014	2015				2015	2016 (Proj.)
				Mar	Jun	Sep	Dec		
Uganda	14.0	4.8	4.6	1.9	4.9	7.2	8.4	5.1	6.5
Kenya	9.4	5.7	6.9	6.3	7.0	6.0	8.0	6.6	5.9
Tanzania	16.0	7.9	6.1	4.3	6.1	6.1	6.8	5.6	5.9
Burundi	18.2	7.9	4.4	4.7	7.7	4.1	7.1	5.6	6.2
Rwanda	6.3	4.2	1.8	0.8	2.8	3.7	4.5	2.5	4.2

Source: Central Banks Websites & IMF, WECO, October 2015

On commodity markets, prices remained low and outlook further softened in short and medium term, due to abundant supply amid subdue global demand, especially for industrial commodities and recently to the appreciation of the US dollar. For the third consecutive year, crude oil average price dropped by 47.3% to USD 50.75/barrel on average in 2015 from USD 96.24/barrel in 2014, as oil production increased in OPEC countries mostly led by production from Iraq and Saudi Arabia as well as non-OPEC countries like North America and Russia. Iranian oil exports are anticipated to go up in 2016 following Iranian nuclear agreement. Brent crude oil prices fell by 47.1% in 2015, to USD 52.37/barrel from USD 98.94/barrel in 2014.

Figure 1: Crude oil price developments (USD/barrel)



Source: World Bank

Non-energy commodity prices continued declining after their early 2011 high levels on the back of abundant supply and large inventories. Overall, non-energy prices slip by 15% in 2015 while metals and minerals prices fell by 21.1% on weakening demand, especially in China, while supply increased from earlier large investments. Upside risks on prices of metals include closures of high-cost mines, reduction in investment in future capacity, continuation of ore exports ban in Indonesia and recovery in global demand.

Table 5: commodity prices (in % change)

	2010	2011	2012	2013	2014	2015	2016 Proj.
Oil	27.9	31.6	1.0	-0.9	-7.5	-47.3	-17.6
Beverages	14.1	16.6	-18.6	-10.1	22.2	-8.1	-1.2
Coffee Arabica	36.2	38.3	-31.2	-25.2	43.8	-20.3	0.0
Coffee Robusta	5.6	38.7	-5.8	-8.4	6.8	-12.4	-1.0
Tea	5.9	1.2	-0.8	-1.2	-4.9	-0.4	-0.8
Metals	48.2	13.5	-16.8	-5.5	-6.6	-21.1	-9.4
Tin	50.3	27.7	-18.9	5.5	-1.7	-26.6	3.5
Gold	25.9	28.1	6.4	-15.5	-10.3	-8.3	-1.6
Iron ore	82.4	15.0	-23.4	5.3	-28.4	-42.4	3.4
Fertilizers	-5.0	42.6	-3.5	-17.4	-11.6	-5.0	-0.5

Source: IMF, World Economic Outlook, WB, October 2014

Agriculture commodity prices dropped for the fourth year in 2015 declining by 13.1% on plenty supply prospects despite El Niño fears. Coffee prices dropped by 20.3% (for Arabica) and by 12.4% (for Robusta) mainly reflecting improved supply conditions for Arabica coffee in Brazil and for Robusta coffee in Vietnam. Tea prices have increased substantially in recent months but started to slowdown as supply is likely to improve. Tea average prices slightly fell by 0.4% in 2015 as prices increased sharply in Mombasa auction by 34.1% offsetting a decline of 16.4% in prices of tea in Colombo. Prices dropped by 5.0% for fertilizers by on abundant production capacity.

Overall, commodity prices are expected to keep declining throughout 2016 as oversupply is expected to persist with oil and metals leading the declines.

1.1.3 Monetary policy and financial markets

Monetary policy in developed countries remained accommodative to boost economic activities. Central bank rates remained unchanged at 0.05% in Euro, 0.5% in UK and 0.10% in Japan. In US, in December

2015, the Federal Reserve Bank raised its target range for the fund rate to 0.25% - 0.50% in line with current positive developments in labor market, business investments, retail sales and reducing unemployment rate and with the objective to strive for maximum employment and ensure price stability. In the Euro area, the ECB decided to extend its monthly asset purchasing program of €60 billion up to end March 2017. Interest rate on deposit facility was reduced again to more negative -0.30% in December 2015 to deter bank deposit and redirect the money towards the economic activity. Similarly, the Bank of Japan has been pursuing a quantitative monetary easing to achieve and maintain the price stability target of 2%.

In December 2015, US 10-year rose to 2.3% from 2.2% in December 2014 reflecting a perceived improvement in American economy. In Euro area, 10-year bond yields have fallen below 1% during the year after the European Central Bank engaged in a monthly €60 billion bond-buying program. In December 2015, the yield stood at 0.6% up from 0.5% in December 2014.

On the foreign exchange market, the dollar remained strong supported by the recovery in US economy and the widening interest rate differential between major developed economies and USA. Compared to end December 2014, the dollar appreciated by 11.4% in December 2015 versus the Euro, by 5.7% against the pound and by 0.4% against the Yen, after gains of 13.6%, 6.3% and 13.7% respectively in December 2014. The greenback is expected to continue to strengthen with the Fed monetary policy tightening. These four currencies make up the SDR basket which will be extended to Yuan as a fifth currency effective October 1, 2016, with a share of 10.92% of the total basket.

Table 6: Currency weight in SDR basket before and after Yuan inclusion (% of total)

	Before Yuan inclusion	After Yuan inclusion
U.S. Dollar	41.9	41.73
Euro	37.4	30.93
Chinese Renminbi	-	10.92
Japanese Yen	9.4	8.33
Pound Sterling	11.3	8.09

Source: IMF, Factsheet, November 30, 2015

1.2 National Economic Performance

1.2.1 Economic Growth

The Rwandan economy performed well in the first three quarters of 2015 as real GDP grew by 6.1% in 2015Q3, 7.1% in 2015Q2 and 7.6% in 2015Q1 after 8.0% in 2014Q3, 6.1% in 2014Q2 and 7.5% in 2014Q1. On average, the economy grew by 6.9% in the first three quarters of 2015, slightly lower than 7.2% recorded in the corresponding period of the previous year. The 2015 real GDP growth was on average driven by the good performance of the service sector (+7.3%) followed by the industry sector (+7.0%) and the agriculture sector (+5.0%).

Table 7: Rwanda Real GDP growth (in %)

	2011	2012	2013	2014	2015			2015 Proj.	2016 Proj.
					Q1	Q2	Q3		
GDP	**7.8**	**8.8**	**4.7**	**7.0**	**7.6**	**7.1**	**6.1**	**7.0**	**6.3**
Agriculture	**5.0**	**6.0**	**3.0**	**5.0**	**4.0**	**5.0**	**6.0**	**5.5**	**5.1**
Food crops	5.0	7.0	4.0	6.0	4.0	4.0	5.0	5.2	5.4
Export crops	3.0	9.0	-5.0	-2.0	0.0	30.0	17.0	7.7	-0.4
Livestock & livestock products	3.0	6.0	7.0	8.0	10.0	9.0	8.0	9.5	8.8
Forestry	3.0	4.0	3.0	2.0	3.0	3.0	3.0	3.0	3.2
Fishing	3.0	-2.0	5.0	3.0	3.0	3.0	3.0	3.0	3.7
Industry	**18.0**	**8.0**	**9.0**	**6.0**	**7.0**	**10.0**	**4.0**	**8.7**	**6.2**
Mining & quarrying	50.0	-7.0	20.0	11.0	-12.0	-2.0	-9.0	-11.1	-2.0
Manufacturing	8.0	6.0	5.0	1.0	8.0	10.0	7.0	6.9	7.8
Electricity	15.0	17.0	8.0	9.0	8.0	9.0	7.0	7.9	8.3
Water & waste management	15.0	8.0	5.0	3.0	-11.0	0.0	0.0	0.0	2.7
Construction	24.0	15.0	11.0	8.0	11.0	15.0	6.0	15.2	7.0
Services	**8.0**	**12.0**	**5.0**	**9.0**	**9.0**	**6.0**	**7.0**	**7.1**	**7.1**
Trade & transport	7.0	15.0	6.0	9.0	6.0	5.0	5.0	5.7	4.4
Maintenance and repair of motors	8.0	8.0	6.0	3.0	6.0	7.0	7.0	6.5	4.8
Wholesale & retail trade	8.0	14.0	6.0	9.0	7.0	5.0	5.0	6.2	4.2
Transport services	4.0	19.0	7.0	8.0	3.0	4.0	5.0	3.5	4.9
Other services	9.0	10.0	5.0	9.0	10.0	7.0	8.0	7.9	8.5
Hotels & restaurants	4.0	6.0	3.0	4.0	3.0	3.0	2.0	3.2	3.6
Information & communication	4.0	33.0	0.0	17.0	35.0	7.0	17.0	13.0	15.0
Financial services	20.0	13.0	10.0	5.0	10.0	7.0	18.0	10.1	9.5
Real estate activities	0.0	0.0	1.0	8.0	5.0	11.0	5.0	8.2	8.3
Public administration and defense; compulsory social security	15.0	22.0	9.0	7.0	11.0	-3.0	1.0	4.9	5.2
Education	18.0	7.0	4.0	8.0	6.0	6.0	6.0	4.9	5.2
Taxes less subsidies on products	**2.0**	**2.0**	**-3.0**	**3.0**	**22.0**	**14.0**	**7.0**	**9.7**	**5.1**

Source: National Institute of Statistics of Rwanda (NISR)

The good performance continued in 2015Q4, as evidenced by the leading economic indicators of economic activities, evolving towards attaining the projected annual growth of 7.0% by end 2015 and 6.3% by end 2016.

In 2015Q4, total turnovers of industry and services sectors rose by 16.3% higher than 12.0% registered in the same period of 2014 mainly led by the high performance of the construction sector (+41.5%), manufacturing industries (+15.2%), banking and insurance sector (+28.2%), as well as wholesale and retail trade (+19.5%).

The Composite Index of Economic Activities (CIEA) increased in real terms by 14.6% in 2015Q4 from 11.0% in 2015Q3 and 14.0% in 2014Q4 and gained by 13.5% over the whole year 2015, slightly higher than 13.0% registered in 2014.

The good performance in service and industry sectors was supported by the accommodative monetary policy implemented by BNR since 2013 to support the financing of the economy by the banking sector. By end December 2015, new authorized loans to private sector increased by 13.7%, to FRW 742.2 billion from FRW 653.0 billion end December 2014. Outstanding loans to private sector increased by 26.7%, to FRW 1,148.4 billion end December 2015 from FRW 906.3 billion end December 2014. Consequently, this has contributed to boost private consumption by 11.3% as well as investment (+8.0%), leading to an increase in aggregate demand.

The agriculture sector, which grew by 5.0% in the first three quarters of 2015, is expected to improve by end 2015 (+5.5%) and slightly decelerate to 5.1% in 2016 owing to anticipated contraction in export due to declining commodity international prices.

The industry sector grew by 7.0% in the first three quarters of 2015 and is expected to grow by 8.7% in 2015 from 6.0% in 2014. For 2016, the sector's growth is expected to decelerate to 6.2%, dragged down by the mining sector due to declining international prices for minerals while the service sector which grew by 7.3% in the first three quarters of 2015 is projected to grow by 7.1% in 2015 and 2016.

1.2.2 Formal External Trade Performance

In 2015, total exports recorded poor performance, decreasing by 6.8% in value to stand at USD 558.8 million from USD 599.8 million in 2014, while the volume increased by 20.5%. Formal imports decreased by 2.8% in value, reaching USD 2,320 million from USD 2,386.9 million, but increased by 12% in volume. Despite a bigger percentage fall in exports, the trade deficit improved by 1.4%, falling to USD 1,761.3 million from USD 1,787.2 million. Formal imports cover by formal exports slightly declined to 24.1% in 2015 compared to 25.1% in 2014. Including informal cross-border trade, exports covered 28.1% of imports in 2015 from 29.5% for last year.

1.2.2.1 Formal Exports Developments

Traditional exports composed of tea, coffee, pyrethrum, minerals as well as hides and skins accounted for 47.5% of the total export earnings in 2015 compared to 55.2% in 2014, followed by re-exports (+31.8%) and non- traditional exports (+20.7%). The change observed in the exports structure was mainly due to the poor performance recorded in the mining sector which decreased in both value and volume, following a 21.1% fall in international metals' prices on the back of weakening demand, especially in China.

Table 8: Evolution of % share of exports: 2011–2015

	2011	2012	2013	2014	2015
TOTAL EXPORTS	**100**	**100**	**100**	**100**	**100.0**
Traditional exports	**77.9**	**59.4**	**62.1**	**55.2**	**47.5**
Coffee	19.2	12.6	9.6	10.0	11.1
Tea	16.5	13.6	9.7	8.6	13.0
Cassiterite	25.0	11.0	10.7	12.0	**6.1**
Coltan	10.0	11.8	23.5	17.5	**11.8**
Wolfram	4.1	5.4	5.2	4.4	**3.1**
Hides and Skins	2.0	3.0	2.8	2.4	**1.9**
Pyrethrum	1.2	2.0	0.7	0.3	**0.4**
Re-exports	**9.6**	**22.4**	**23.6**	**27.6**	**31.8**
Non-traditional exports	**12.5**	**18.2**	**14.3**	**17.3**	**20.7**

Source: BNR, Statistics Department

In 2015, total formal exports performed poorly, decreasing by 6.8% in value to USD 558.8 million from USD 599.8 million, after an increase of 4.7% in the same period of 2014, mainly as a result of poor performance recorded by the mining sector (-42.1%). However, total formal exports increased in volume by 20.5%, attributed mainly to re-exports (+50.5%), coffee exports (+17.7%), tea exports (+8.9%) as well as non-traditional exports (+8.0%).

Table 9: Major exports developments (Value FOB in USD millions, Volume in thousands of tons)

	2011	2012	2013	2014	2015	% Change
Coffee						
- Value	74.60	60.89	54.90	59.68	62.04	**4.0**
- Volume	15.60	16.99	19.99	15.97	18.79	**17.7**
- Price	4.78	3.58	2.75	3.74	3.30	**-11.6**
Tea						
- Value	63.90	65.72	55.48	51.76	72.46	**40.0**
- Volume	23.73	22.45	21.01	22.67	24.68	**8.9**
- Price	2.69	2.93	2.64	2.28	2.94	**28.6**
Mining						
- Value	151.43	136.07	225.70	203.32	117.81	**-42.1**
- Volume	8.85	7.53	9.58	10.47	7.28	**-30.5**
Cassiterite						
- Value	96.82	52.90	61.07	71.95	34.26	**-52.4**
- Volume	6.95	4.64	4.90	5.95	3.85	**-35.4**
- Price	13.93	11.41	12.48	12.08	8.91	**-26.3**
Coltan						
- Value	38.58	56.91	134.57	104.78	66.20	**-36.8**
- Volume	0.89	1.14	2.47	2.30	1.65	**-28.3**
- Price	43.35	49.72	652.56	45.51	40.08	**-11.9**
Wolfram						
- Value	16.03	26.26	30.05	26.59	17.34	**-34.8**
- Volume	1.01	1.75	2.22	2.21	1.78	**-19.4**
- Price	15.93	15.00	13.55	12.01	9.72	**-19.1**
Hides and Skin						
- Value	7.62	14.37	16.02	14.22	10.38	**-27.0**
- Volume	6.22	10.03	10.30	9.62	8.27	**-14.1**
- Price	1.22	1.43	1.56	1.48	1.26	**-15.1**
Pyrethrum						
- Value	4.51	9.71	3.98	1.83	2.48	**35.5**
- Volume	0.02	0.04	0.02	0.01	0.01	**31.0**
- Price	240.37	257.86	238.88	171.20	177.15	**3.5**
I. Traditional Exports						
- Value	302.06	286.76	356.08	330.81	266.33	**-19.5**
- Volume	54.42	57.04	60.89	58.74	59.55	**1.4**
II. Re-exports						
- Value	36.50	107.99	135.04	165.35	177.87	**7.6**
- Volume	19.38	57.05	97.59	105.73	159.16	**50.5**
III. Other Exports						
- Value	48.35	88.00	81.91	103.60	115.73	**11.7**
- Volume	93.06	174.59	149.89	159.63	172.42	**8.0**
Total General						
- Value	**386.91**	**482.75**	**573.03**	**599.76**	**558.75**	**-6.8**
- Volume	**166.85**	**288.67**	**308.37**	**324.10**	**390.61**	**20.5**

Source: BNR, Statistics Department

Coffee exports increased by 17.7% in volume and 4.0% in value, due to the fall in the unit price (-11.6%) from USD 3.74/Kg to USD 3.30/Kg. Tea exports increased in both value and volume by 40.0% and 8.9% respectively, due to the rise in the unit price (+28.6%) from USD 2.28/Kg to 2.94/Kg in 2015.

The mining sector recorded poor performance in 2015, declining in both value and volume by 42.1% and 30.5% respectively, due to the fall in international metal prices which declined by 21.1%. Exports of cassiterite declined by 52.4% in value and by 35.4% in volume as its unit price declined by 26.3%. The unit price for coltan also fell by 11.9% leading to a decline in its exports value and volume by 36.8% and 28.3%, respectively. The fall in the unit price of wolfram (-19.1%) and its volume (-19.4%) led to a decline in its exports value by 34.8%.

Exports value and volume for hides & skins also decreased by 27.0% and 14.1% respectively, due to high demand on the local market. Exports for pyrethrum increased by 35.5% in value and by 31.0% in volume.

Non-traditional exports, which are dominated by products of the milling industry, increased by 11.7% in value and by 8.0% in volume mainly due to good performance recorded by some agro-processing industries that penetrated regional markets notably in Kenya, Tanzania and DRC. The major agro-processing industries that have penetrated regional markets include Bakhresa, Inyange, Bralirwa, Skol Brewery, Pembe and Minimex.

Re-exports, which are dominated by petroleum products, vehicles and machines as well as engines, increased by 50.5% in volume and by 7.6% in value due to the rise in re-exports of petroleum products (+56.5% in volume and +30.5% in value). Petroleum products represent 49.0% of the total volume of re-exports and 50.2% of total re-exports earnings. The rise in the volume of petroleum products was a result of high demand of fuel consumption by the increasing number of planes coming to Rwanda.

1.2.2.2 Formal Imports Developments

Rwanda's formal imports are composed of consumer goods, capital goods, intermediary goods as well as energy and lubricants. In 2015, imports value was fairly distributed, consumer goods with a share of 29.9%, followed by intermediary goods (+29.4%), capital goods (+28.1%), and energy & lubricants (+12.5%). In volume terms, intermediary goods are dominant with a share of 48.0%, followed by consumer goods (+33.6%), energy & lubricants (+15.5%) and then lastly, capital goods (+3.4%).

In 2015, formal imports decreased by 2.8% in value, to USD 2,320 million from USD 2,386.9 million, after an increase of 6.2% in 2014. However, they increased by 12.0% in volume, in line with the improved performance of economic activities. Consumer goods grew by 17.5%, capital goods (+15.8%), intermediary goods (+8.5%) and energy & lubricants (+11.1%). The decline in total imports CIF value is attributed to the decrease in import value of energy and lubricants (-23.7%) resulting from the decline in international oil prices by 47.3%, as well as from intermediary goods (-5.2%) despite the increase in imports value of consumer goods (+5.8%) and capital goods (+1.6%).

Table 10: Formal imports developments (Value in millions of USD, Volume in thousands of tons)

	2012		2013		2014		2015		% change 2015/2014	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Consumer goods	576.96	626.06	574.38	633.62	592.36	656.18	695.91	694.13	**17.5**	**5.8**
Capital goods	68.09	589.24	59.00	596.32	60.62	642.25	70.21	652.58	**15.8**	**1.6**
Intermediary goods	810.27	622.44	878.85	632.88	914.69	720.00	992.18	682.45	**8.5**	**-5.2**
Energy and lubricants	253.24	361.42	269.72	384.60	278.94	368.50	309.80	290.84	**11.1**	**-21.1**
Petroleum products	242.36	342.31	261.23	367.90	270.41	352.54	276.96	269.10	**2.4**	**-23.7**
TOTAL IMPORTS	**1708.54**	**2199.17**	**1781.94**	**2247.41**	**1846.62**	**2386.92**	**2068.10**	**2320.00**	**12.0**	**-2.8**
Trade balance (exports less imports)		**-1716.42**		**-1674.38**		**-1787.16**		**-1761.25**		**1.4**
Cover rate of imports/exports, %		**22.0**		**25.5**		**25.1**		**24.1**		**-3.9**

Source: BNR, Statistics Department

Imports of consumer goods which are dominated by food products increased in both volume (+17.5%) and value (+5.8%). The rise in volume was mainly attributed to the increase in food products (+19.7%), domestic articles (+31.0%), non-utility transport (+24.8%) as well as articles of clothing (+27.5%). Food imports CIF value rose mainly due to the increased imports for vegetables, fruits and spices (+41.9%), meat and fish (+24.8%), milk and milk products, birds eggs, natural honey (+14.6%) and sugar & sweets (+19.4%).

Imports of capital goods dominated by machines, devices and tools as well as transport materials increased in both value (+1.6%) and volume (+15.8%), mainly due to imports of machines & devices (+5.6% in value and +10.4% in volume) and trucks (+92.0% in value and +123.8% in volume) owing to importation of the right hard drive trucks in the second half of 2015.

Imports of intermediary goods, dominated by construction materials, industrial products and fertilizers, increased in volume by 8.5% but decreased in value by 5.2%, due mainly to textile industries (+14.2% in volume and -5.4% in value) and chemical industries (+6.4% in volume and -19.2% in value). Imports of textile industries are mainly cotton threads, stiff papers, rubber threads and fishnets imported mainly from Kenya, Uganda, China and South Africa.

Chemical industries imports are mainly sulpher, tubes, pipes, vulcanized rubber threads and gypsum, mainly from Uganda, China, Tanzania, Indonesia, Kenya and Saud Arabia. Imports of construction materials increased in both value and volume by 4.9% and 11.1% respectively due to imports of cement and other similar products which represent 75.0% of the volume of imports of construction materials. The latter increased in volume by 9.7%. On the other side, exports of CIMERWA significantly increased by 143.9% in volume and by 71.3% in value in 2015, after a rise of 351.4% in volume and 457.3% in value in 2014.

Imports of energy and lubricants decreased in value by 21.1% but increased in volume by 11.1%. The decline in value was mainly due to the fall in prices of imports of petroleum products such as fuel (motor spirit) which decreased by 12.6%.

Table 11: Imports of energy and lubricants (Value in millions of USD, Volume in thousands of tons)

	2012		2013		2014		2015		% change	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
ENERGY AND LUBRICANTS	**253.24**	**361.42**	**269.72**	**384.60**	**278.94**	**368.50**	**309.80**	**290.84**	11.1	-21.1
Piles and Electrics accumulators	7.34	12.36	5.07	10.50	4.89	9.46	5.35	13.12	**9.5**	**38.7**
PETROLEUM PRODUCTS	242.36	342.31	261.23	367.90	270.41	352.54	276.96	269.10	2.4	-23.7
Motor spirit (Essence)	74.20	109.12	76.56	113.65	77.76	104.95	87.96	91.76	**13.1**	**-12.6**
Gas oils	113.81	163.25	132.17	193.38	138.89	191.30	142.23	144.06	2.4	-24.7
Other carburant	54.35	69.95	52.50	60.87	53.76	56.28	46.77	33.28	**-13.0**	**-40.9**
Lubricating oils	3.49	6.72	3.41	6.20	3.62	6.47	4.36	6.56	**20.46**	**1.42**

Source: BNR, Statistics Department

1.2.2.3 Formal trade with other EAC Countries

Rwanda's exports to other East African Community (EAC) member countries representing 22.8% of total exports in 2015 against 23.8% in 2014, decreased by 10.3% in value, to USD 127.76 million from USD 142.45 million in 2014. The decline was due to the fall in international commodities' prices coupled with the fall in export products mostly exported to Burundi. Exports to Burundi decreased by 6.7% in value compared to 1.0% decline in 2014 as there were no cement exports by CIMERWA to Burundi in 2015.

Imports from EAC countries which represent 22.4% of total imports also decreased by 5.0%, from USD 546.8 million recorded in 2014 to USD 519.4 million recorded in 2015. As a result, the trade deficit dropped by 3.2%, to USD 391.6 million in 2015 from USD 404.4 million in 2014.

Table 12: Trade flow of Rwanda within EAC bloc (USD million)

		2012	2013	2014	2015
Exports to EAC	Value in USD millions	115.59	122.94	142.45	127.76
	% change	43.22	6.36	15.87	-10.31
	Share of total formal exports	23.94	21.45	23.75	22.82
Imports from EAC	Value in USD millions	532.56	516.39	546.80	519.36
	% change	-32.23	-3.03	5.89	-5.02
	Share of total formal exports	24.22	22.98	22.91	22.39
Trade balance		**-416.96**	**-393.45**	**-404.35**	**-391.61**

Source: BNR, Statistics Department

Rwanda's main exports to other EAC member countries remain tea (sold at Mombasa commodity exchange), coffee, raw hides and skins of bovine, leguminous vegetables, beer as well as products of the milling industry. With regard to imports, the main products are cement, refined and nonrefined palm oil and other cooking oils, vegetable fats, animals, minerals or chemical fertilizers and clothing.

1.2.2.4 Formal trade balance deficit

The Rwandan trade balance has been deteriorating over the years due to the continued higher imports bill than exports receipts. Among other consequences of this high and persistent trade balance deficit are the shrinking of import coverage and the volatility of the FRW which is a risk to macroeconomic stability.

The mismatch between imports and exports is mainly due to reliance on low-value export products, whose prices depend on the global market and the continued increased demand of foreign produced goods, notably capital and intermediate goods, to sustain the ongoing economic growth.

However, import-substitution strategic measures for some categories of imports such as rice, wheat and sugar whose domestic market is growing rapidly and their contribution to imports bill is high should be reinforced. There is potential to produce these commodities locally and this should have a big positive impact on trade balance. For example, the table below shows that imports of cement, sugar, wheat and rice exceed coffee and tea exports earnings.

Table 13: Evolution of Imports and exports of some items and their import coverage

Imports (USD million)	2010	2011	2012	2013	2014	2015
Cement	52.8	68.4	85.3	85.0	85.6	82.7
Sugar	48.3	53.1	67.8	60.3	66.6	67.1
Wheat	20.7	43.7	62.0	63.3	53.1	39.2
Rice	16.8	21.2	25.7	38.8	31.1	37.0
Total	**138.6**	**186.3**	**240.8**	**247.4**	**236.5**	**226.0**
Exports (USD million)						
Coffee	56.1	74.6	60.9	54.9	59.7	62.0
Tea	55.7	63.9	65.7	55.5	51.8	72.5
Total	**111.8**	**138.5**	**126.6**	**110.4**	**111.4**	**134.5**
Import coverage	**80.6%**	**74.3%**	**52.6%**	**44.6%**	**47.1%**	**59.5%**

Source: BNR, Statistics Department

1.2.3 Informal Cross Border Trade

Rwandan informal cross-border exports with neighboring countries, which account for 18% of formal exports, decreased by 6.6% and amounted to USD 100.5 million in 2015 from USD 107.5 million in 2014 due mainly to the decline in cross border exports to Burundi by 27.2%.

Exports to the Democratic Republic of Congo (DRC) represent a big share of 75.7% of the total informal cross border exports, followed by exports to Uganda with 17.7%. Exports to Burundi and Tanzania account for 6.6% and 0.05% respectively.

Table 14: Rwanda informal cross border trade (USD million)

		2011	2012	2013	2014	2015
Exports	Value in USD millions	71.40	101.81	110.71	107.51	100.45
	% change	29.6	42.6	8.7	-2.9	-6.6
	Share of total formal exports	18.5	21.1	19.3	17.9	18.0
Imports	Value in USD millions	23.51	22.63	17.61	19.23	21.92
	% change	-33.25	-3.73	-22.19	9.17	14.04
	Share of total formal imports	1.24	1.03	0.78	0.81	0.94
Trade balance		**47.9**	**79.2**	**93.1**	**88.3**	**78.5**

Source: BNR, Statistics Department

Informal imports increased by 14.0% in 2015, from USD 19.2 million in 2014 to USD 21.9 million in 2015, leading to a decline of 2.1% in Rwanda's informal trade balance with neighboring countries, from USD 88.3 million in 2014 to USD 78.5 million in 2015. The main trading partners are Uganda, Burundi and the Democratic Republic of Congo (DRC) which represent a share of 53.2%, 31.1% and 14.0% respectively.

1.2.4 Balance of Payments (BOP)

In 2015, provisional numbers for BOP show that Rwanda has ended the year with a BOP deficit of USD 71.20 million from a deficit of USD 90.4 million in 2014, and it is expected to settle to a deficit of USD 89.60 million in 2016 due to deteriorating current account.

Total private inflows increased by 12.7% compared to 5.6% recorded in 2014, mainly due to high private long term external borrowing which rose by 73.0% compared to a decline of 18.1% in 2014, of which Rwandair borrowing rose by 93.3%. Foreign direct investments increased by 5.0% amounting to USD 330.51 million in 2015 from USD 314.74 million in 2014, and the country recorded an increase of 5.0% in tourism receipts, that is, from, USD 303.7 million to USD 318.8 million in 2014.

Table 15: Key capital inflows (USD million)

	2010	2011	2012	2013	2014	2015
Total private inflows	**643.0**	**774.6**	**866.3**	**883.1**	**932.6**	**1,044.5**
Direct investments	250.5	119.1	255.0	257.6	314.7	330.5
Portfolio investments	7.6	87.6	5.9	1.7	1.4	1.4
Remittances	98.2	166.2	175.3	161.8	174.9	155.8
Private foreign borrowing LT	85.0	149.9	148.4	168.4	137.9	238.6
Tourism receipts	201.7	251.8	281.8	293.6	303.7	318.8
Total official inflows	**765.1**	**825.1**	**604.9**	**810.1**	**719.2**	**667.3**
Ordinary budgetary grants	479.5	628.4	433.7	575.6	382.1	367.4
Capital grants	285.6	196.7	171.2	234.5	337.1	299.9

Source: BNR, Statistics Department

The BOP deficit also resulted from the decline in total official inflows (-7.2%), of which capital grants decreased by 11.0% and ordinary budgetary grants declined by 3.9%. Remittances decreased by 10.9% compared to an increase of 8.1% in 2014, due to the slowdown in the global economy and high depreciation of regional currencies against the USD. Despite the persistent BOP deficit we ended the year with a comfortable level of reserves at 4.1 months of imports.

II. MONETARY SECTOR AND INFLATION DEVELOPMENTS

2.1 Monetary Policy Stance in 2015

In 2015, the National Bank of Rwanda maintained an accommodative monetary policy stance aimed at supporting the economy since there were no inflationary pressures during the year. As a result, the economic financing by the banking sector improved. Total outstanding loans to the private sector expanded by 26.7% (y-o-y) in December 2015 compared to December 2014 against 19.6% recorded in the same period of 2014 while broad money supply grew by 20.9% (y-o-y) in December 2015 against 19.0% recorded in December 2014.

2.2 Inflation Developments in 2015

Generally, inflation in Rwanda continues to record moderate and low levels though it has been increasing since January, from 1.4% to 4.5% in December 2015. On average, headline inflation increased from 1.8% in 2014 to 2.5% in 2015, mainly driven by rising food prices, especially influenced by vegetables' prices. Downward pressures came from transport prices following the trend in international oil prices.

Domestic inflation also increased but remained benign, standing at 3.0% in 2015 on average, compared to 1.9% in 2014, while imported inflation slid to 1.1% in 2015 from 1.5% recorded the previous year. The rise in domestic inflation reflects the increase in domestic food prices, while imported inflation varied following the trend in international oil prices.

Core inflation, which excludes fresh products and energy, slightly declined on average from 2.7% in 2014 to 2.1% in 2015 justifying the BNR's decision to maintain the ongoing monetary policy stance to continue supporting the financing of economic activities.

Table 16: Inflation developments for key items (annual % change)

	2014			2015											
	Oct	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
Headline	0.5	0.7	2.1	1.4	0.7	0.8	0.9	2.2	2.8	2.3	3	3.7	2.9	4.8	4.5
Domestic	-0.2	0.5	2.2	1.8	1.06	1.2	1.5	2.8	2.6	1.9	3.1	4.3	3.8	6.1	5.7
Food:	-3.3	-2.7	0.7	1.2	-0.3	0.8	2.5	3.8	2.9	0.7	3.2	5.6	5.7	10.5	9.7
- Vegetables	-13.8	-10.8	-4.2	-2	-4..3	-2.3	2.7	6.2	4.6	-0.1	6	11.9	12.4	22.5	23.3
- Bread and Cereals	7.8	6.1	8	7.4	7.1	8.3	8.3	6.5	5.4	2.2	1.9	1.8	0.2	1.2	-0.4
- Non-alcoholic beverages	2.0	1.4	0.9	0.0	0.6	2.1	0.9	1.1	1.8	2.1	1.2	0.6	1.2	2.7	2.2
Clothing	7.9	6.7	6.2	4.3	2.9	3.2	3.7	2.6	3	1.1	1.8	1.4	1.3	1.5	1.5
Housing	2.3	2.9	3.7	3.7	3.6	3.8	2.9	4.5	4.5	4.2	4.5	5.7	4	3.6	2.9
Transport	0.6	-1.8	-2	-3.9	-4.3	-3.9	-3.8	-2.5	1.5	2.7	2	0.4	-1.4	2.0	2.4
Imported	3.2	1.3	1.6	0	-0.3	-0.1	-0.3	0.6	3.3	3.4	3	1.8	0.1	1.0	1.3
Core	3.5	2.9	2.9	1.8	1.7	1.8	1.6	2	3	3	2.7	2.3	1.3	2.3	2.3
Energy	0.8	0.7	2	0.3	-0.4	-0.9	-3.1	0.5	0.9	0.3	1.9	4.4	3.8	3.4	1.6

Source: BNR, Statistics Department

2.3 Monetary Developments

2.3.1 Money Supply

Broad money (M3) expanded by 20.9% (y-o-y) in December 2015 against (+19.0%) in December 2014. The growth in money supply was mainly driven by the expansion in Net Domestic Assets (+57.1%) of the banking system, offsetting a decline of 7.1% in Net Foreign Assets (NFA). The increase in net domestic assets followed the expansion in net credit to government (+427.1%) and credit to private sector (+26.7%).

Table 17: Monetary aggregates developments (end-period, FRW billion)

	2012	2013	2014	2015	% change		
	Dec	Dec	Dec	Dec	Dec-13/ Dec-12	Dec-14/ Dec-13	Dec-15/ Dec-14
Net foreign assets	**555.8**	**744.0**	**690.4**	**641.4**	**33.9**	**-7.2**	**-7.1**
Net domestic assets	**334.3**	**284.7**	**533.5**	**838.1**	**-14.8**	**87.4**	**57.1**
Domestic credit	544.4	567.1	890.9	1221.9	4.2	57.1	37.2
Central government (net)	-136.9	-187.3	-21.2	69.4	-36.8	88.7	427.1
Public enterprises	1.0	1.3	5.8	4.3	22.5	364.7	-25.7
Private sector	***682.5***	***758.0***	***906.3***	***1148.4***	***11.1***	***19.6***	***26.7***
O/W in foreign currency	6.1	15.8	63.6	104.9	159.7	303.0	65.0
Other items net (Assets: +)	-210.1	-282.5	-357.4	-383.9	-34.5	-26.5	-7.4
Broad money M3	**890.2**	**1028.7**	**1223.9**	**1479.5**	**15.6**	**19.0**	**20.9**
Currency in circulation	107.0	116.6	118.5	140.0	9.0	1.7	18.1
Deposits	783.1	912.1	1105.3	1339.5	16.5	21.2	21.2
O/W: Demand deposits	318.4	378.7	456.2	614.6	18.9	20.5	34.7
Time deposits	300.1	339.2	407.3	469.0	13.0	20.1	15.1
Foreign currency deposits	164.6	194.2	241.8	255.9	17.9	24.5	5.8

Source: BNR, Statistics Department

New authorized loans by the banking sector expanded to FRW 742.2 billion in 2015 from FRW 653.0 billion recorded in 2014, an increase of 13.7%.

Table 18: New authorized loans by activity branch (FRW billion)

Activity branch	**2011**	**2012**	**2013**	**2014**	**2015**	**% change 2015/14**
Non-classified activities	51.1	83	56.5	62.6	67.1	7.2
Agricultural, fisheries& livestock	12.5	10.6	8.8	8.8	13.9	58.0
Mining activities	0	0	0.2	0.2	0.30	50.0
Manufacturing activities	20.1	37	43.9	72.5	51.2	-29.4
Water & energy activities	1.7	3.9	5.6	25.6	1.3	-94.9
Public works and building	90.3	111.9	93.2	138.4	237.3	71.5
Commerce restaurant and hotel	137.8	203.1	216.2	272.1	279.7	2.8
Transport & warehousing & communication	24.7	30.4	29.5	42.2	53.8	27.5
OFI &Insurances and other non-financial services	12.5	4.6	6.1	4.5	14.8	228.9
Services provided to the community	8.3	14.4	12.5	26.1	22.6	-13.4
Total	**358.9**	**498.9**	**472.5**	**653.0**	**742.2**	**13.7**

Source: BNR, Financial Stability Directorate

Considering the distribution of loans by type of borrowers in 2015, new authorized loans to corporates represent 59.1% (FRW 438.2 billion) of total loans against 40.9% (FRW 303.8 billion) for individuals. The share of loans to corporates has recorded an increasing trend for the last five years from 45.8% in 2011 to 59.1% in 2015.

Considering total loans to individuals, 23% were authorized to women and 77% to men in 2015. In addition, the number of women financed by banks remained relatively low, amounting to 222,619 between 2011 and 2015 compared to men (416,576).

Table 19: Distribution of loans by gender in number

	2011	**2012**	**2013**	**2014**	**2015**
Women (share of loans in %)	22	22	22	25	23
Men (share of loans in %)	78	78	78	75	77
Number women financed	10,920	19,190	14,376	90,796	87,337
Number men financed	29,595	45,825	37,273	133,505	170,378

Source: BNR, Financial Stability Directorate

The high increase in number of women and men financed between 2013 and 2014 is due to the consideration of loans given by ZIGAMA-CSS and some loans by Urwego Opportunity Bank which were not captured before 2014.

These banks normally distribute small loans to many clients. Before 2014, the declaration of ZIGAMA-CSS was not fulfilling BNR requirements and was not considered. Its inclusion started in 2014 after improving their reporting.

Urwego Opportunity Bank (UOB) granted small loans to individuals in groups and were not reported before 2014 because of legal framework. In 2014, UOB started to report each individual loan in the group.

With regard to the sectoral distribution of the new loans by economic activity, commerce, restaurant and hotels continued to be the most financed with 37.7% of the total loans in 2015, followed by public works and buildings (32.0%) and non-classified activities dominated by personal loans (9.1%).

It is important to highlight that the share of the construction sector substantially increased in 2015 compared to the last five years due to the financing of some big construction companies (i.e. Catchup Investment, Intare Investment, Prime Economic Zones, Gorilla Investment and Down Town Ltd).

Table 20: New cash loans distribution by economic sector (% share)

Activity branch	**2011**	**2012**	**2013**	**2014**	**2015**
Non-classified activities	14.2	16.6	12.0	9.6	9.0
Agricultural, fisheries& livestock	3.5	2.1	1.9	1.3	1.9
Mining activities	0.0	0.0	0.0	0.0	0.0
Manufacturing activities	5.6	7.4	9.3	11.1	6.9
Water & energy activities	0.5	0.8	1.2	3.9	0.2
Public works and building	25.2	22.4	19.7	21.2	32.0
Commerce restaurant and hotel	38.4	40.7	45.8	41.7	37.7
Transport & warehousing & communication	6.9	6.1	6.2	6.5	7.3
OFI &Insurances and other non-financial services	3.5	0.9	1.3	0.7	2.0
Services provided to the community	2.3	2.9	2.7	4.0	3.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: BNR, Financial Stability Directorate

Considering the distribution of new authorized loans by provinces, Kigali City has a lion's share averaging 73.9% in the last five years, followed by the Western Province (7.9%), Eastern Province (7.2%), Southern Province (6.4%) and Northern Province (4.7%).

Table 21: Distribution of new authorized loans by Province (in FRW billion)

	2011	2012	2013	2014	2015
KIGALI CITY	266.4	355.0	358.7	464.0	571.0
WEST	28.8	47.4	29.9	67.8	39.0
EAST	23.0	33.4	36.7	52.8	52.6
SOUTH	23.9	38.3	23.9	41.1	45.0
NORTH	16.8	24.9	23.3	27.2	34.5
TOTAL	**358.9**	**498.9**	**472.5**	**653.0**	**742.2**

Source: BNR, Financial Stability Directorate

During the year 2015, the banking sector received a total number of loan applications of 271,186, equivalent to FRW 937.1 billion. Out of these, 3.5% (i.e. 9,381 loans applications amounting to FRW 195 billion) were rejected while 96.5% of the total loans applications were approved.

Compared to the previous year, the rate of loan rejection slightly decreased from 3.9% in December 2014 to 3.5% in December 2015. However, in terms of amount of loans applied for, the rejection rate increased to 21% (FRW 195 billion) from 17.4% recorded in December 2014.

Considering the type of borrowers, out of the 9,381 loan applications rejected, 8.3% equivalent to FFRW 134 billion were from corporate clients while 91.7% were from individuals of which 6,316 (73%) were from male and 2,290 (27%) were from female.

The biggest loan rejected as one of FRW 4.5 billion applied for in the mining sector followed by another of FRW 1.2 billion rejected in the Manufacturing sector. The first one was rejected because it was start up (no track record) and the promoter had no tangible security.

Overall, the key reasons for rejection were insufficient or uncertain repayment capacity, insufficient or lack of collateral, poor account turnover, failure to complete all requirements and bad credit history.

Table 22: Loan rejection rate by sector of activity considering the total amount of applications (%)

Sector of activity	2013	2014	2015
Mining activities	-	68	96
Agricultural, fisheries & livestock	11	58	49
Water & energy activities	37	0.5	44
Mortgage industries	17	25	27
Non-classified activities	28	12	20
Commercial & hotel	11	18	17
Service sector	31	15	12
Transport & warehousing	13	8	10
Manufacturing activities	-	2	5
OFI & Insurance	2	5	1

Source: BNR, Bank Supervision Department

2.3.2 Money Demand

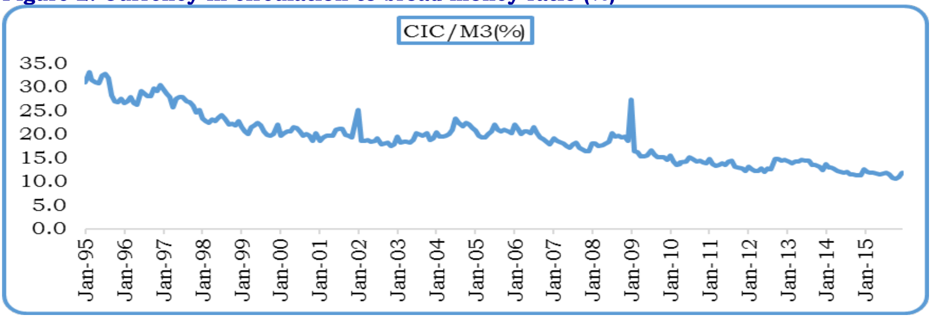
Currency in circulation accounts for more than 60% of the total reserve money, indicating its importance in overall monetary management. Currency in circulation comprises the outstanding amount of banknotes and coins held by the public and banks, and it is determined by the cash demands of both the public and the banking system. Thus, it can be subject to the influence of various unforeseen developments in the economy.

Currency in circulation displays a pronounced seasonality, with weekly, monthly and annual patterns and may be determined by the payment of salary advances or salaries, New Year, Christmas and other events such as coffee campaign.

There is a relationship between currency in circulation and the development of economic activity. Currency in circulation grew by 18.1% (y-o-y) in December 2015 against (+1.7%) recorded in December 2014. Over last 5 years growth of currency in circulation averaged 10.3%. This situation is explained by continued economic performance and an increase in domestic government spending by 8.8% in 2015 compared to (+1.0%) in 2014. Overall, developments in currency in circulation were influenced by the transformation process in the economy.

The currency to broad money ratio has been decreasing over time, standing at 9.2% in 2015 against 9.7% in 2014. In the recent past, the currency to broad money (M3) ratio averaged 13.3%, 12.3%, and 11.5% in 2011, 2012 and 2013 respectively.

Figure 2: Currency in circulation to broad money ratio (%)



Source: BNR, Monetary Policy and Research Department

This downward trend is mainly explained by extension of banking sector network, microfinance institutions and SACCOs, payment system modernization and the improvement in financial services awareness.

Total bank deposits increased (y-o-y) by 21.2% in December 2015, remaining stable compared to the corresponding period of 2014. This expansion came from the increase in demand, time and foreign currency deposits by 34.7%, 15.0% and 5.8% respectively compared to 20.5%, 20.1% and 24.5% recorded in the same period of 2014.

The deceleration in the growth of term deposits was caused by significant investments in long term instruments by non-banks mainly T-bonds whose stock for this category of investors expanded by 122.3%, from FRW 24.2 billion by end December 2014 to FRW 53.8 billion by end December 2015, while the stock of T-bills remained unchanged at FRW 11.9 billion.

The decline in foreign currency deposits was due to the base effect as in 2014, foreign currency deposits had increased mainly due to foreign inflows worth USD 100 million from the sale of MTN network towers to IHS holdings in April and May 2014.

Regarding the share of different categories of deposits in total deposits, demand deposits remained with a big share averaging 44.4% in the last five years, followed by time deposits (35.9%) and foreign currency deposits (19.6%).

With regard to deposits by category of depositors, Households and Non-Profit Institutions Serving Households (NPISHs) dominate in demand and time deposits, while foreign currency deposits are mostly held by nonfinancial corporations.

Table 23: Deposits by category of depositors (% share)

	Demand deposits					Time deposits					Foreign currency deposits				
	2011	2012	2013	2014	2015	2011	2012	2013	2014	2015	2011	2012	2013	2014	2015
Other financial institutions	3.5	2.1	2.4	2.4	**3.4**	5.4	6.1	4.6	3.8	**5.8**	0.5	0.3	0.2	0.1	**0.3**
Social security funds	1.2	1.7	1.7	1.2	**3.7**	8.8	9.6	13.3	14.0	**12.0**	0.0	0.1	0.1	0.1	**0.3**
Public enterprises	3.1	1.9	1.6	2.4	**0.8**	0.4	0.2	0.3	0.2	**0.4**	1.2	0.4	0.5	0.4	**0.7**
Other nonfinancial corporations	11.0	13.3	11.3	11.8	**14.0**	3.4	3.8	4.0	4.6	**3.1**	9.5	11.8	12.1	13.4	**9.5**
Households and NPISH[1]	22.4	21.6	24.5	23.5	**22.5**	20.8	18.5	15.1	14.3	**14.6**	8.7	8.5	8.4	8.0	**8.9**
Total (%)	**41.2**	**40.6**	**41.5**	**41.3**	**44.4**	**38.8**	**38.2**	**37.3**	**36.9**	**35.9**	**19.9**	**21.1**	**21.3**	**22.0**	**19.6**

Source: BNR, Statistics Department

As depicted in the table below, the share of institutional depositors namely RSSB, insurance companies, and Microfinance institutions represent 53% in total term deposits on average for the last 5 years. RSSB dominates with a share of 31% followed by MFIs (12%) and insurance companies (10%).

Table 24: Share of RSSB, Insurance and MFIs in term deposits (%)

	2011	2012	2013	2014	2015
RSSB	22.7	25.1	35.7	37.9	33.4
Insurance	12.1	12.6	8.3	4.1	11.1
MFIs[2]	11.1	9.7	11.0	13.0	15.3
Total	**45.9**	**47.4**	**55.0**	**55.0**	**59.9**

Source: BNR, Financial Stability Directorate

2.3.3 Liquidity Conditions of the Banking System

In 2015, liquidity conditions improved significantly as evidenced by the increase of the banking system's most liquid assets by 12.4%, standing at FRW 318.1 billion in December 2015 from FRW 282.9 billion in

[1] Non-Profit Institutions Serving Households

[2] Including SACCOs. All MFIs deposits are term deposits

December 2014. This increase was driven by an expansion in T-bills outstanding, excess reserves and cash in vault by 30.7%, 7.2% and 4.0% respectively while outstanding repo declined by 44.2%. This reduction in outstanding repo was mainly caused by BNR interventions on money market in line with the objective of developing interbank market which is key for the transmission mechanism of monetary policy.

As a result, the value of transactions in the interbank market increased to FRW 242.5 billion in 2015 from 224.8 billion in 2014 and 145.8 billion in 2013 while the number of transactions stood at 154, 168 and 98 in 2015, 2014 and 2013 respectively.

Table 25: Most liquid assets of commercial banks (FRW billion)

	2011	2012	2013	2014	2015	2015/2014 (% change)
T-bills	74.3	62.5	171.6	172.3	225.1	**30.7**
Repo	85.9	52.5	63.0	47.5	26.5	**-44.2**
Excess reserves	7.2	14.8	26.3	27.7	29.7	**7.2**
Cash in vault	15.2	22.3	31.9	35.4	36.8	**4.0**
Total	**182.5**	**152.0**	**292.8**	**282.9**	**318.1**	**12.4**

Source: BNR, Monetary Policy & Research Department

2.3.4 Interest Rates Developments

In 2015, money market interest rates remained at low levels following the sufficient level of liquidity in the banking system as a result of the accommodative monetary policy. Compared to their levels in December 2014, repo and interbank rates slipped respectively to 2.36% and 3.73% in December 2015 from 2.77% and 4.74% while the T-bills rate increased to 6.76% from 4.88% during the same period.

Table 26: Interest rates developments (in %)

	2011	2012	2013	2014	2015					
	Dec	Dec	Dec	Dec	Mar	Jun	Sep	Oct	Nov	Dec
Key Repo Rate	7.00	7.50	7.00	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Discount Rate	11.00	11.50	11.00	10.50	10.50	10.50	10.50	10.50	10.50	10.50
Repo rate	6.53	7.46	3.99	2.77	1.95	2.01	1.90	1.83	1.83	2.36
T-Bills Rate	7.62	12.39	5.62	4.88	4.33	4.05	4.64	4.92	5.41	6.76
Interbank Rate	8.08	11.12	5.59	4.74	3.79	4.03	3.67	3.45	3.45	3.73
Deposit Rate	7.96	10.04	8.58	7.76	8.12	8.80	8.32	7.87	8.14	7.59
Lending Rate	16.73	16.49	16.93	17.66	17.37	17.26	17.17	17.19	17.07	17.03

Source: BNR, Statistics Department

In 2015, the deposit rate stabilized at 8.2% on average, as it was recorded in 2014. Similarly, lending rates averaged around 17.3% in 2015 the same as recorded in 2014. Interest rates in Rwanda have been very stable and predictable in the last decade, which is key in investment and saving decisions. The standard deviation, which measures the variability of the lending rate, is 0.41 between 2010 and 2015, lower than 2.29 and 1.97 in Uganda and Kenya, while in Tanzania it is also very low standing at 0.02 during the same period. The stability and predictability are also observed for both lending rates for corporate and individual borrowers where the variability stood at 0.74 and 0.63 respectively.

Table 27: Interest rates by type of borrowers (in %)

	2011	2012	2013	2014	2015							STDEV
Type of Borrower	Dec	Dec	Dec	Dec	Mar	Jun	Jul	Sep	Oct	Nov	Dec	
Corporates	16.35	15.71	16.27	16.85	16.53	16.56	16.37	16.34	16.35	16.56	16.28	**0.74**
Individuals	16.87	16.75	18.59	18.68	18.44	17.97	18.14	17.95	18.00	18.24	18.21	**0.63**

Source: BNR, Financial Stability Directorate

Regarding lending interest rates by maturities, they remained relatively stable as their standard deviations were less than 1. However, long term interest rates have been most volatile over the past five years explaining the low level of long term liquidity to finance long-term projects in the banking system.

Table 28: Lending rates by maturity (%)

Terms	2011	2012	2013	2014	2015							
	Dec	Dec	Dec	Dec	Mar	Jun	Jul	Sep	Oct	Nov	Dec	STDEV
Short	17.39	17.68	16.90	17.90	18.13	17.96	18.13	17.54	17.39	17.18	17.21	0.78
Medium	16.97	16.55	17.87	18.11	17.18	17.64	17.08	17.48	17.57	17.45	17.71	0.50
Long	15.65	14.80	15.54	16.40	19.16	15.88	16.01	16.20	15.93	16.51	15.74	0.98

Source: BNR, Financial Stability Directorate

Furthermore, lending interest rates by category of banks remained stable and predictable. Interest rates for microfinance banks stabilized at around 24%. However, the high microfinance banks interest rates had moderate impact on overall lending rates due to low size of their loans.

Table 29: Lending rates by category of banks (%)

	2014				2015									
	Mar	Jun	Sep	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Banks & BRD & ZIGAMA CSS	16.41	17.12	16.61	17.05	16.86	17.16	16.92	16.71	16.59	16.72	16.55	16.53	16.67	16.50
Microfinance Banks	24.94	23.35	23.88	23.33	24.57	23.41	23.90	23.57	23.96	23.83	24.38	24.80	24.86	23.71
All Banks	16.83	17.52	17.11	17.66	17.37	17.85	17.35	17.26	17.35	17.42	17.17	17.19	17.07	17.03

Source: BNR, Financial Stability Directorate

III. EXCHANGE RATE AND FOREX MARKET DEVELOPMENTS

3.1 Exchange Rate Developments

In 2015, the forex market has been under relatively higher pressure mostly resulting from the strengthening of the US dollar around the world, the contagion from high depreciation of regional currencies and associated speculative behaviour, and the decline in exports earnings. As a result, the FRW depreciated against the USD by 7.6% in 2015, trading for FRW 747.41 per dollar from FRW 694.37 by end December 2014.

Table 30: Appreciation/depreciation rate of selected currencies against the USD (%)

	FRW/USD	EUR/USD	GBP/USD	JPY/USD	KES/USD	UGS/USD	TZS/USD	BIF/USD
Dec-2011	1.6	-6.6	-3.3	14.8	5.3	7.5	7.8	10.4
Dec-2012	4.5	8.6	-0.6	-7.0	1.1	7.7	0.3	13.6
Dec-2013	6.1	-4.0	-1.9	21.6	0.3	-5.9	0.2	-0.3
Dec-2014	3.6	13.6	6.3	13.7	5	9.7	9.6	0.7
Mar-2015	2.0	12.7	5.1	0.3	1.9	6.9	3.6	0.2
Jun-2015	3.6	8.5	-0.9	2.3	8.9	19	17.1	0.9
Sep-2015	5.2	8.2	3.0	0.1	16.2	33.3	24.5	1.9
Dec-2015	7.6	11.4	5.7	0.4	12.8	21.8	24.5	4.1

Source: BNR, Monetary Policy and Research Department

In the same period, the FRW appreciated by 3.2% versus the EURO but depreciated by 2.8% against the British Pound (GBP). It also appreciated by 4.6%, 13.5% and 11.6% against the Kenyan, Tanzanian and Ugandan shillings respectively. The appreciation of FRW against shillings was mainly due to the weakening of regional currencies against the USD.

Table 31: Appreciation/Depreciation rate of selected currencies against the FRW (%)

	FRW/USD	FRW/GBP	FRW/EUR	FRW/JPY	FRW/KES	FRW/TZS	FRW/UGS	FRW/BIF
Dec-2011	1.6	1.5	-0.4	7.3	-2.0	-5.8	-3.9	-2.2
Dec-2012	4.5	10.0	7.7	-5.2	3.4	4.7	-2.6	-11.5
Dec-2013	6.1	8.0	10.2	-13.4	5.3	6.2	11.7	4.9
Dec-2014	3.6	-2.4	-8.5	-9.7	-2.8	-7.0	-6.7	1.0
Mar-2015	2.0	-2.7	-9.1	2.5	0.3	-4.6	-4.7	2.4
Jun-2015	5.4	5.1	-4.2	2.0	-4.7	-9.0	-12.9	4.4
Sep-2015	5.2	2.7	-2.6	6.0	-9.4	-15.5	-20.9	6.3
Dec-2015	7.6	2.8	-3.2	7.8	-4.6	-13.5	-11.6	10.0

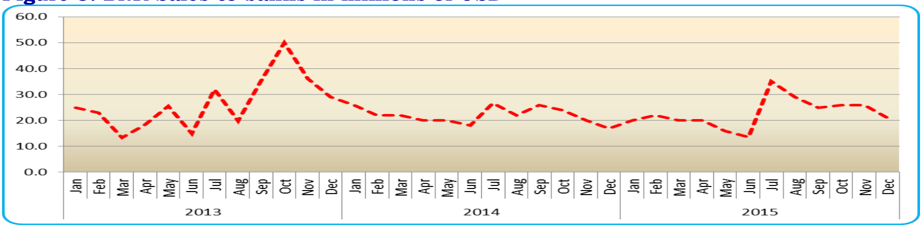
Source: BNR, Monetary Policy and Research Department

Looking at basket of currencies for Rwanda's main trading partners, it is worth mentioning that for 2015, the FRW real effective exchange rate appreciated by 3.4% compared to 3.7% in 2014.

3.2 Foreign Market Developments

As already mentioned, the poor performance of the exports sector and other foreign inflows led to a significant decline in net foreign assets of commercial banks to USD 41.3 million end December 2015 from USD 150.7 million end December 2014, that is, a decline of 72.6%. To satisfy high demand of forex for financing imports and debt servicing (which increased by 4.3% from USD 119.0 million in 2014 to USD 124.1 million in 2015), BNR sales to banks increased by 3.7%, to USD 273.5 million compared to USD 263.7 million sold last year.

Figure 3: BNR Sales to banks in millions of USD



Source: BNR, Financial Market Department

IV. FINANCIAL SECTOR STABILITY

The Rwandan financial system remains sound and stable and all its sub-sectors have been growing. Banking and non-banking financial institutions' capital and liquidity levels remain adequate, above the prudential limits, and enough to absorb any shock.

The banking sector continues to dominate the financial sector with 67% of the total financial sector assets, followed by pension (17.1%), Insurance (9.3%) and Microfinance Institutions (6.6%).

Table 32: Size of different Financial Sector Sub-Sectors (% share of total assets)

	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
Banking sector	70.8	66.3	66.5	66.6	67.0
Insurance	10.3	10.6	10.1	9.8	9.3
Pension	13.8	17.7	17.8	17.8	17.1
MFIs	5.1	5.4	5.7	5.9	6.6

Source: BNR, Financial Stability Directorate

Fostering financial system stability is an integral component of BNR broader objectives of financial system development. The Financial Stability Committee (FSC) of the Bank convenes every quarter to assess the likely risks underlying the financial sector and to proactively devise appropriate corrective measures to mitigate them.

4.1 Financial Sector Performance Indicators

4.1.1 Banking sector

The banking sector is composed of twelve commercial banks, three microfinance banks, one development bank and one cooperative bank. Bank of Africa was licensed in October 2015 and it acquired Agaseke microfinance bank. The entry of new banks in the banking sector in Rwanda and the extension of the banking network have increased competition and innovation in the banking industry.

The share of three biggest banks in total assets, deposits and loans declined respectively from 50%, 51% and 50% in December 2011 to 43%, 38% and 46% in December 2015.

The increasing competition in the banking industry has brought innovation in terms of products and services. As banks strive to increase their client base, they have introduced products that meet the needs of many Rwandans. For example, agency banking, has been rapidly growing. The number of bank agents rose from 844 in December 2012 to 2,555 in December 2015. This growth of bank agent has partly contributed to increasing number of accounts. The number of clients' accounts increased from 1,782,949 in December 2011 to 2,355,008 in December 2015.

The banking sector assets expanded significantly in 2015. Total assets of the industry registered an annual growth rate of 18.3% in December 2015 from FRW 1.80 trillion in December 2014 to 2.13 trillion mainly due to high growth of loans to the private sector which accounted for 57.6% of total assets of all banks followed by Government securities that account for 11.2%.

On the liability side, deposits, which account for 81.3% of the total liabilities of the banking sector grew by 15% in December 2015 from FRW 1.23 trillion in December 2014 to 1.42trillion in December 2015. Deposits have strongly grown at an average of 20% in the last five years. Increased confidence in the banking system and stronger income growth underpin this strong growth in deposits as Rwandans become wealthier and more confident in their banking system, they increase their deposits in banks.

From the financial stability perspective, the banking sector remains well capitalized and with adequate liquidity. The capital adequacy ratio (CAR) stood at 22.5% compared to 24.0% recorded in December 2014. This capital level remains above Basel committee benchmark of 13%, and above the BNR regulatory minimum requirement of 15%[3]. In addition, the liquidity ratio of the banking sector stood at 45.9% in December 2015, well above the prudential limit of 20%.

The asset quality of the banking sector has significantly improved in last 5 years. The non-performing loan ratio (NPLs) of the banking industry stood at 6.2% in 2015 from 6.0% in 2014 and 8% in 2011. Combined efforts of increased bank usage of credit information services and BNR's strict enforcement of prudential norms has helped to improve the asset quality of banks.

Profits of the banking sector continued to grow in 2015. The net profit after tax for the banking industry rose by 27.5% from FRW 33.75 billion end December 2014 to FRW 43.04 billion end December 2015. Return on assets (ROA) and return on equity (ROE) increased to 2.1% and 11.2% respectively from 1.9% and 10.5% in 2014 respectively.

[3] BNR requires banks to have a higher total regulatory capital than Basel Committee minimum requirements

Table 33: Key Banking system soundness indicators (%)

Indicator	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
Solvency ratio (total capital)	25.0	23.9	23.1	24.2	22.5
NPLs / Gross Loans	8.0	6.0	6.9	6.0	6.2
NPLS net/Gross loans	6.2	5.4	6.0	5.1	5.2
Provisions / NPLs	50.8	53.7	53.3	56.8	46.2
Earning Assets / Total Assets	77.2	79.9	78.6	93.1	78.8
Large Exposures / Gross Loans	9.8	9.1	11.6	17.7	23.4
Return on Average Assets	2.2	2.2	1.5	1.9	2.1
Return on Average Equity	10.6	10.4	7.4	10.8	11.2
Cost of deposits	2.8	2.9	3.8	3.4	3.2
Liquid assets/total deposits	47.2	41.2%	49.4	51.7	45.9
FOREX exposure/core capital	-1.5	-0.6%	-2.2	2.2	-5.7

Source: BNR, Bank Supervision Department

4.1.2 Microfinance Sector

The Microfinance sector's assets grew by 31.1% from FRW 159.3 billion in December 2014 to FRW 208.9 billion in December 2015. This increase is attributable to sharp increase in loans by 28.6%. The Capital Adequacy Ratio (CAR) stood at 31.1%, well above the minimum regulatory requirement of 15% and liquidity ratio stood at 89.6%.

The asset quality of microfinance institution slightly deteriorated with NPL ratio increasing from 7% in December 2014 to 7.9% in December 2015. To ensure that credit risk in microfinance institutions progressively reduce, BNR has visited different MFIs, with special attention to SACCOs, and they staff were trained on quality management of the loan portfolio.

Table 34: MFIs performance indicators (UMURENGE SACCOs included (FRW billion, unless otherwise indicated)

All MFIs+ UMURENGE SACCO	31-Dec-13	31-Dec-14	30-Jun-15	31-Dec-15	Change 2015/14
Total Assets	**128.75**	**159.33**	**187.50**	**208.95**	**31.1%**
Liquid Assets	-	55.33	76.04	77.80	**40.6%**
Loan Portfolio (Net of Provisions)	71.22	86.85	93.64	111.73	**28.6%**
Gross Loans	**73.54**	**89.96**	**97.19**	**116.58**	**29.6%**
Non-Performing Loans	4.98	6.34	7.18	9.22	**45.6%**
Provisions	2.49	3.11	3.55	4.85	**56.1%**
Total Deposits	**69.49**	**86.13**	**104.93**	**117.29**	**36.2%**
Current Accounts	**52.29**	**63.60**	**79.70**	**86.79**	**36.5%**
Equity	**42.98**	**52.82**	**58.84**	**64.98**	**23.0%**
Earnings	8.87	11.90	13.68	17.10	**43.7%**
Paid up Capital	18.71	22.26	23.49	24.87	**11.7%**
NPL Ratio (Max 5%)	**6.8%**	**7.0%**	**7.4%**	**7.9%**	
CAR (Min 15%)	**33.4%**	**33.2%**	**31.4%**	**31.1%**	
Quick-Liquidity Ratio (Min 30%)	**80.5%**	**87.0%**	**95.4%**	**89.6%**	

Source: BNR, Microfinance Supervision Department

About Umurenge SACCO performance, 379 out of 416 U-SACCOs (91.1%) had reached their break-even point in terms of profitability by end December 2015. U-SACCOs hold 48.3% and 56.7% of the total MFIs' assets and deposits respectively. Between December 2014 and December 2015, U-SACCO assets grew by 39.5% from FRW 72.3 billion to FRW 100.9 billion due to high increase in loans by 20.8% to FRW 32.3 billion end December 2015.

On the liability side, deposits increased by 45.6% from RWF 45.7 billion in December 2014 to FRW 66.5 billion in December 2015. The asset quality of U-SACCOs deteriorated, NPLs ratio increasing from 7.1% in December 2014 to 10.7% in December 2015 mainly due to weakness in loan portfolio management and improved reporting as a result of recommendations from multiple on-site inspections.

The sector remains well capitalized and liquid with the Capital Adequacy Ratio stood at 29.1% in December 2015, down from 32.9 % in December

2014, but still above the 15% prudential limit. The liquidity ratio increased from 86.8% in December 2014 to 95.3% in December 2015, above the BNR regulatory requirement of 30%.

Table 35: UMURENGE SACCO performance indicators (FRW billion unless otherwise indicated)

UMURENGE SACCOs (FRW Million)	31-Dec-13	31-Dec- 14	30-Jun-15	31-Dec-15	%Change 2015/2014
Total Assets	57.37	72.34	90.82	100.90	39.5
Liquid Assets	26.81	34.63	51.33	56.28	62.5
Loan Portfolio (Net of Provisions)	20.81	26.74	27.77	32.30	20.8
Gross Loans	21.54	27.73	28.95	34.05	22.8
Provisions	0.73	0.99	1.17	1.75	76.8
Total Deposits	36.90	45.69	58.20	66.51	45.6
Current Accounts	32.70	39.88	51.75	59.08	48.2
Equity	17.73	23.81	26.68	29.37	23.4
Earnings	9.16	13.53	15.65	17.77	31.4
Paid up Capital	6.40	7.66	8.49	8.93	16.5
NPL (Max 5%)	7.3%	7.1%	8.2%	10.7%	
CAR (Min 15%)	30.9%	32.9%	29.4%	29.1%	
Liquidity (Min 30%)	82.0%	86.8%	99.2%	95.3%	

Source: BNR, Microfinance Supervision Department

In terms of loan distribution by sectors of economic activities for the microfinance industry, the largest share of 35.0% of the total outstanding credit was granted to commerce, restaurants & hotels followed by public works and construction (31.3%) and agriculture (16.5%). Given its rural base, 29.7% of UMURENGE SACCO loans financed the agriculture sector.

Table 36: MFI's Outstanding Loans by Economic Sector (FRW billion)

Economic Sector	UMURENGE SACCOs		Other MFIs		TOTAL	
	Amount	% share	Amount	% share	Amount	% share
Agriculture, Livestock, Fishing	10.1	29.7	9.1	11.0	19.2	16.5
Public Works and Buildings	3.8	11.2	32.7	39.6	36.5	31.3
Commerce, Restaurants, Hotels	15.1	44.4	25.7	31.2	40.8	35.0
Transport, Warehouses, Communications	1.8	5.3	2.8	3.4	4.6	4.0
Others	3.2	9.4	12.2	14.8	15.4	13.2
TOTAL	**34.0**	**100.0%**	**82.5**	**100.0%**	**116.5**	**100.0**

Source: BNR, Microfinance Supervision Department

4.1.3 Non-Bank Financial Institutions (NBFIs)

The non-bank financial institutions under the supervision of BNR are mainly comprised of insurers, pension schemes and insurance intermediaries.

In the period under review, no new insurance companies were licensed; however, four new insurance brokers were licensed. Currently, there are eight non-life insurers, four life insurers, two public medical insurers, fifteen insurance brokers, three hundred and sixty five insurance agents, twelve loss adjusters, one public pension scheme managed by Rwanda Social Security and fifty seven private pension schemes.

Insurance Sector Performance

The insurance sector continues to register considerable growth in terms of total assets and capitalization and significant growth is from public medical insurers. As at end December 2015, the total assets increased by 12% to FRW 306 billion from FRW 272 billion end December 2014.

The sector's total capital increased by 12% to FRW 222 billion end December 2015 from FRW 198 billion end December 2014. The solvency margin, which is one of key indicators to measure insurance financial soundness, was 1066%, above the minimum requirements of 100%.

The sector continues to have sufficient liquidity as it is evidenced by the liquidity ratio of 355% which is well above the minimum prudential benchmark of 150%.

Table 37: Performance indicators for the insurance sector (FRW billion unless otherwise indicated)

Key Performance Indicators	December-2014			December-2015[4]			% change
	PRIVATE INSURERS	PUBLIC INSURERS	INDUSTRY	PRIVATE INSURERS	PUBLIC INSURERS	INDUSTRY	Dec-15/14
Total assets	**109**	**163**	**272**	**116**	**190**	**306**	**12**
Total capital	**38**	**160**	**198**	**41**	**180**	**222**	**12**
Total claims outstanding reserves	19	1	20	22	1	22	10
Total premiums written	45	38	83	53	38	91	10
Underwriting profit	(14)	16	2	(6)	17	10	511
Total net profit	(4.5)	25.6	21	(0.47)	25.8	25	20
Solvency margin ratio (%)	126	4006	2066	98	2268	1066	-1000
Claims ratio (%)	73	42	57	58	44	52	-5
Expenses ratio (%)	15	16	40	47	13	32	-8
Combined ratio (%)	88	58	97	105	57	84	-13
Current ratio (%)	126	4218	335	146	6672	609	274
Liquidity ratio (%)	91	3877	284	93	5478	355	70
Return on equity ratio – ROE (%)	(12)	16	11	-1	14	11	0.8
Return on assets ratio - ROA (%)	(4)	16	8	-0.4	14	8	0.6
Insurance risk ratio -GP/CAP (%)	118	24	42	128	21	41	-1

Source: BNR, Non-Bank Financial Institution Supervision Department

[4] Data referred to are provisional and subject to change with the submission/availability of comprehensive 2015Q4, financial returns from insurers.

By end December 2015, the insurance gross premium written was FRW 91 billion compared to FRW 83 billion as at end December 2014, reflecting a slight increase of 10%.

The net profit for the sector increased by 20%, to FRW 25 billion from FRW 21 billion end December 2014. Returns on Equity and returns on assets also slightly increased by 0.8% from 10.6% to 11.4% and by 0.6% from 7.7% to 8.3% respectively, above the prudential benchmarks of 10% and 5%, respectively.

However, as at December 2014, the Rwandan insurance penetration was relatively low at 1.5% which is still low compared with that of Kenya (2.9 %) or Africa wide average which stands at 2.8%[5].

Pension Sector performance

The pension sector assets continued to expand. Between December 2014 and December 2015, total assets increased by 14% from FRW 481 billion to FRW 546 billion, mainly attributed to more contributions collected that lead to additional investments in term deposits, equities and properties. In the period under review, total contributions increased by 19% from FRW 57 billion to FRW 68 billion, while total benefits paid increased by 15% from FRW 13billion to FRW 15 billion. The investment income increased by 19% from FRW 21 billion to FRW 25 billion mainly due to investment returns equivalent to FRW 13 billion from the term deposits and Government Securities.

[5] From Association of Kenya Insurers (AKI), Annual Report, 2014.

Table 38: Pension sector performance indicators (FRW billion)

Particulars	Dec- 2014	Dec-2015	% change
Total assets	481	546	14%
Total contributions	57	68	19%
Total benefits paid	13	15	15%
Investment returns from Fixed Term Deposit and Government Securities	12	13	8%
Total investment income	21	25	19%

Source: BNR, Non-Bank Financial Institutions Supervision Department

During the period under review the legal framework of NBFIs continued to be strengthened. A new draft insurance law was approved by the Board of Directors of BNR and was submitted for cabinet approval. In addition, the pension law was enacted in May 2015 and two implementing regulations (licensing and operating standards for pension schemes and service providers) were approved by the BNR's Board of directors.

Furthermore, all the insurers embarked on the modernization of IT systems in order to ensure that all their business process are automated. A number of insurers managed to introduce new products to respond to their customers' needs. This also facilitate insurance penetration and increased insurance visibility.

4.2 Capital Market Developments

Since 2014, BNR in collaboration with MINECOFIN announced the quarterly issuance calendar of Government Treasury Bonds. The program intends to promote capital market by availing more marketable financial instruments and shaping a long term yield curve for other private instruments. As a result, the share of banks in government bond significantly declined from more than 90% before 2014 to 46.2% while the share of institutional and retail investors increased to 51.5% and 2.3% respectively of total outstanding in 2015. As per the calendar we plan to issue a 15 year bond in May 2016.

With regard to equities, in May 2015 the capital market registered one Initial Public Offer (IPO) where Crystal Telecom Limited raised FRW 28.4 billion through the sale of 270,177,320 ordinary shares. The IPO was subscribed by 124% and the shares were listed on the Rwanda Stock Exchange. In addition, Equity Group Holdings Limited, cross listed its 3,702,777,020 shares on the Rwanda Stock Exchange in February 2015. The company's main listing is on the Nairobi Securities Exchange and it was the 5th company to cross list on the Rwandan Bourse.

To boost the capital market, CMA and stakeholder with technical assistance from Bourse Consult & Genesis Analytic are in process of designing a 10 year Master Plan which is expected to be finalized by March 2016.

4.3 Payment Systems Modernization

Payment system continued to perform well during 2015. The Rwanda Integrated Payments Processing System (RIPPS) operated smoothly by maintaining availability rate of 99%. In 2015, customer transactions through RIPPS rose by 25% amounting to FRW 2,522 billion in 2015 from FRW 2,024 billion in 2014. Similarly, the value of electronic payment rose to FRW 977.1 billion in 2015 from FRW 578.4 billion in 2014. Electronic payment as compared to broad money significantly increased over the last four years from 22% in 2012 to 66% in 2015 reflecting gradual progress towards cashless economy.

Much progress has been achieved in card based payment during 2015. The number of ATM increased by 30.1% between 2012 and 2015, the number of POS terminal for merchants by 203.5%, the number of debit cards by 67.2% and the number of credit cards by 733.7% between 2012 and 2015. The volume of transactions as well as the value have also significantly increased showing good progress in the usage of those products.

Table 39: Card based payment system

	2011	2012	2013	2014	2015
Number of instruments					
Number of Automated Teller Machines (ATMs)	167	292	333	354	380
Number of Point of Sale (POS) terminals for merchants	227	566	946	1,152	1,718
Number of Point of Sale (POS) terminals for agents	-	-	491	1,009	1,422
Number of debit cards	115,200	389,269	487,498	638,869	650,924
Number of credit cards	516	418	845	2,540	3,485
Number of transactions					
ATM	1, 976,376	5,753,163	7,774,053	7,488,707	7,505,815
POS Merchants	38,440	63,757	111,570	185,441	373,029
POS Agents	-	22,425	298,835	482,945	827,130
Value (FRW million)					
ATM	122,536	180,567	260,585	310,009	354,049
POS Merchants	6,438	9,034	14,718	19,223	26,625
POS Agents	-	658	11,235	13,069	21,963

Source: BNR, Payment Systems Department

The good performance characterised by a double increment of POS transactions is due to the increase of POS number (50% of increase), the acceptance of SmartCash cards on POS and introduction of two new POS acquirers on market. It is also worth noting that marketing campaigns on POS usage played an important role in the acceptance of payment terminals by merchants across the country as indicated in the table below.

Table 40: Geographical distribution of ATM and POS machines

		East Province	Kigali Province	North Province	South Province	West Province	TOTAL
ATMs	**NUMBER**	57	187	33	49	54	380
	PERCENTAGE	15%	49%	9%	13%	14%	100%
POS	**NUMBER**	36	1,481	67	57	77	1,718
	PERCENTAGE	2%	86%	4%	3%	4%	100%

Source: BNR, Financial Stability Department

Mobile technology continues to play a big role to enhance electronic payments with the aim of creating an inclusive cashless society in Rwanda. Between December 2012 and December 2015, the number of mobile money accounts increased by 432% from 1,440,541 to 7,663,199, the number of transactions using mobile money increased by 659.8% from 22,191,674 to 168,612,455 and the number of agents increased by 1211.7% from 3,085 to 40,467 in the period under review. This has significantly contributed to increase financial inclusion in Rwanda.

Table 41: Mobile financial services and internet banking developments

Period	Number of subscribers	Number of transactions	Value in FRW million
Mobile Payment			
Jan-Dec 11	639,673	4,323,490	51,024
Jan-Dec 12	1,440,541	22,191,674	161,808
Jan-Dec 13	2,538,651	57,147,777	330,378
Jan-Dec 14	**6,480,449**	**104,773,115**	**691,477**
Jan-Dec 15	**7,663,199**	**168,612,455**	**1,093,497**
Mobile Banking			
Jan-Dec 11	155,986	527,300	5,215
Jan-Dec 12	297,537	1,458,063	3,926
Jan -Dec 13	412,007	2,538,820	17,459
Jan -Dec 14	**659,712**	**4,637,849**	**41,281**
Jan-Dec 15	**828,799**	**5,617,368**	**48,309**
Internet banking			
Jan-Dec 11	n/a	1,493	708
Jan-Dec 12	3,411	10,036	12,746
Jan -Dec 13	8,869	89,260	117,147
Jan -Dec 14	**29,840**	**312,264**	**332,959**
Jan-Dec 15	**36,597**	**556,152**	**581,163**

Source: BNR, Payment System Department

To further develop the National Payment Systems (RNPS) towards the vision of "building a world-class Payment System that is secure, reliable, scalable, cashless, and promotes financial inclusion" by 2020, BNR in collaboration with stakeholders, elaborated the Rwanda National Payments System Framework as well as the strategy to guide its implementation.

The objectives and goals of this Vision are in line with the economic targets as indicated in various national strategic plans, including Rwanda Vision 2020; Economic Development and Poverty Reduction Strategy II 2013 - 2018 (EDPRS II); and Financial Sector Development Program II (FSDP II) 2012.

Regarding the legal and regulatory framework for the payment system, the two regulations governing payment services providers and payment system operators respectively were amended to revise the license validity and include Payment Services Providers/Operators management approval criteria. They also provide assurance for the payment service providers & payment system operators to invest in long term financial infrastructures. This will enable the operators to contribute to the implementation of the national strategy for payment system.

4.4 Access to Finance

Financial inclusion is considered as an important development priority in different countries because it can help poor households improve their lives and spur economic activity.

The Government of Rwanda has set clear targets in terms of financial inclusion: 80% adult population to have access to financial services by 2017 and 90% by 2020. The first FINSCOPE conducted in 2008 which served as baseline revealed that 52% of adults were financially excluded in Rwanda.

To accelerate its financial inclusion program, the Government of Rwanda took different actions including the establishment of U-SACCOs which significantly contributed to give unbanked people access to financial services. In addition, the improvement of the business environment as well as the sound regulatory framework of the financial sector in Rwanda has facilitated the entry of regional banks and the banking sector network extension across the country.

As a result, the rate of financially excluded in Rwanda significantly reduced from 58% of adults in 2008 to 28% in 2012 and formal inclusion rose by 21% from 21% in 2008 to 42% in 2012.

Much progress has been achieved between 2012 and 2015 in terms of formal financial inclusion, more likely exceeding the growth of 21% achieved between 2008 and 2012. While the number of bank accounts declined by 7.6% between December 2012 and December 2015 as BPR cleaned its book in 2014, the number of accounts in microfinance institutions significantly increased by 40.5% in the period under review which contributed to increase the access to formal financial services.

Loans authorized to the private sector by commercial banks increased by 48.7% from FRW 498.9 billion in 2012 to FRW 742.2 billion in 2015 while the loans provided by microfinance institutions increased by 45.7% amounting FRW 128.1 billion in 2015 from FRW 87.9 billion in 2012. In addition, the amount of loans extended to SMEs continued to increase amounting FRW 247 billion in 2015 from FRW 230 billion in 2012, that is an increase of 7.3%.

In addition to the role played by banks and microfinance institutions, big contribution in financial inclusion in Rwanda between 2012 and 2015 come from the development of ICT which contributed to create more efficient means such as mobile money to bridge the financial inclusive gap by eliminating some barriers such as distance to financial institutions, lack of documentation to open a bank account and cost of classical formal financial services.

Table 42: Account penetration

	2012	2015	% Change
Banks	2,548,000	2,355,00	-7.6
MFIs	1,988,000	2,793,900	40.5
Mobile payment	1,440,541	7,663,199	432

Source: BNR, Payment System Department

Between December 2012 and December 2015, the number of mobile money accounts increased by 432% from 1,440,541 to 7,663,199, the number of transactions using mobile money increased by 659.8% from 22,191,674 to 168,612,455 and the number of agents increased by 1211.7% from 3,085 to 40,467 in the period under review. This development is expected to have increased formal access to financial service between 2012 and 2015 more than what was achieved between 2008 and 2012.

In terms of usage in 2015, mobile money was more used for Airtime purchase representing 38% of total number of transactions, followed by cash in and cash out with 24% and 18% respectively, transfers (13%), utilities payments (6%) and other services (1%). Regarding geographical distribution of mobile payment agents, Kigali accounts for 40% of total agents, followed by Southern province (20%), Western province (16%), Eastern province (16%) and Northern Province (7%) while Northern Province has the lowest number with 7%.

While much progress has been achieved in terms of availability of financial services and products, some challenges remain in terms of their use. For example, as already mentioned, only 6% mobile money account holders use the facility for utility payments. This is an indication that there is big room for policy adjustment to spearhead the usage of existing financial services and products. For example, encouraging utility companies and schools to provide convenient and affordable way for customers to make electronic payments from their accounts by using mobile phones or point of sale terminals could rapidly increase the access to finance.

V. MONETARY POLICY AND FINANCIAL SECTOR OUTLOOK

5.1 Monetary Policy Outlook

BNR will implement its monetary and exchange rate policy and continue to ensure stability of financial sector in a challenging global economic environment. While the global economy is projected to gain some momentum in 2016 led by strengthening recovery in advanced economies and improving economic activity in emerging and developing economies, downside risks remain and are likely to increase global economic vulnerability.

Continued strengthening of the USD and decline in exports earnings in Rwanda due to global market conditions may continue to exert pressures on FRW exchange rate, with risk of high exchange rate pass through to domestic prices, which may pose some challenges to the current BNR accommodative monetary policy.

Thus, in 2016, BNR will implement a prudent monetary policy stance with the objective of maintaining low and stable inflation while continuing to support economic financing by the banking sector and limiting pressures on the FRW.

This will requires much analytical work by BNR to ensure that developments on international, regional and domestic markets are well understood and taken into consideration when MPC members decide on the monetary policy stance so as to keep inflation in line with our mid-term objective of 5%.

In addition, to improve the monetary transmission mechanism which is key for the effectiveness of monetary policy, BNR will put efforts in management of the banking liquidity to support the development of money market, particularly the interbank market. BNR interventions on the money market will be guided by recent research in the bank which define what may be considered as optimal levels of excess liquidity in the banking sector in line with monetary policy stance and the objective of developing interbank market.

The development of capital market will also continue to be a priority of BNR in collaboration with MINECOFIN. Treasury Bonds will continue to be issued on quarterly basis and it is planned to extend the maturity of securities to 15 year T-Bond in May 2016. Furthermore, with the objective of enhancing the trading activities on the secondly market, BNR is planning to put in place the framework of Market intermediaries for Government Securities by September 2016.

5.2 Financial Sector Reforms and Way Forward

In order to maintain stability and efficiency in the financial sector, the National Bank of Rwanda intends to focus on the following activities in 2016:

1. In addition to the follow up of the consolidation of SACCOs at district level and their computerization process, BNR will continue to conduct a close supervision of microfinance institutions with focus on monitoring the implementation of recommendations provided to improve the quality of SACCOs' loan portfolio management;
2. Continue the legal reforms to ensure prudential dynamism;

3. Close follow up of the implementation of Basel II/III to ensure compliance with international standards;
4. Monitor the bank's asset quality and efficiencies to enhance the profitability and stability of the sector;
5. Continue to ensure that the regulatory framework in NFIs is further strengthened through implementing the off-site and on-site inspection programs and conducting prudential meeting on quarterly basis with the insurers;
6. Enhance consumer protection, a dedicated regulatory framework which will define key components on pricing of banks services and their disclosure to the public is being prepared. The above regulatory framework will ensure transparency and enhance competition in the sector.

In addition, BNR will continue to enhance its communication strategy. In addition to the existing interactive platform of exchanging information with all stakeholders, with a particular focus on financial institutions and the business community, BNR communication in collaboration with different stakeholders will particularly focus on educating the public about the ongoing financial deepening reforms such as credit reporting bureau activities, the capital market development and payment systems modernization.

About the payment systems modernization, BNR, in collaboration with all stakeholders, is planning to carry out a public awareness campaign on e-payments which will target the public in general and civil servants and merchants in particular.

The campaign is intended to change perceptions and build awareness for benefits of using electronic payments; empower the stakeholders to prioritize electronic payments for all payment transactions; to encourage payment service providers to promote electronic payments and to promote electronic payments as fast, secure reliable and efficient payment methods.

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